

A farm can own a paid-off tractor, a grain bin, a shop, and a house that have little or no tax basis left. "Paid off" tells you there's no loan. It does not tell you what happens when someone sells the asset, gives it to a child, or inherits it.

That distinction matters because depreciation lowers an asset's tax basis. When a farm sells depreciated property for more than its adjusted basis, some of the gain may be taxed as depreciation recapture. For many farm families, that income-tax bill is a more immediate succession risk than federal estate tax.

So before we compare IRC 1245 and IRC 1250, ask the question I ask every family: **Who is likely to sell this asset, and when?** A tractor your daughter plans to use for 15 years raises different planning questions from a combine the family expects to trade next year.

First, separate estate tax from income tax

People often call every tax problem an "estate tax" problem. That's one of the words that scares farmers for no reason. Federal estate tax exposure is rare for most farm estates, although the applicable exemption, state law, and a family's total assets can change the answer. Get current advice rather than relying on an old exemption figure.

Income tax deserves attention even when no federal estate tax is due. A farm may have valuable land and equipment, but that does not mean the family has cash ready to pay tax after a sale. Depreciation deductions can reduce taxable income during ownership while also shrinking basis. If a successor sells the asset, some of the gain may be taxed at ordinary income rates.

The USDA Economic Research Service tracks farm finances and the economic pressures facing agricultural operations. Those conditions matter to succession planning: a farm that needs to sell equipment to manage debt or fund a transition may face a very different tax outcome from one that can keep using its assets.

What depreciation does to basis

Basis is generally the tax investment in an asset, adjusted over time. Depreciation deductions usually reduce that basis. The basic sale calculation is:

Item	What it means	Amount realized	Generally, the sale proceeds, adjusted for selling costs and certain liabilities
Adjusted basis	Original tax basis, generally reduced by depreciation allowed or allowable and adjusted for other items	Gain or loss	Generally, amount realized minus adjusted basis

For example, suppose a farm buys equipment for \$100,000 and claims \$80,000 of depreciation. Its adjusted basis is generally \$20,000. If the farm later sells it for \$70,000, the gain is generally \$50,000 before considering selling costs and other details. The fact that the loan is paid off does not erase that gain.

Actual results depend on the asset's tax history, depreciation method, business use, prior transactions, and other facts. Keep the depreciation schedule. If the records are missing, have a tax professional reconstruct them before agreeing on a sale or distribution.

IRC 1245 equipment recapture: the main issue for machinery

IRC Section 1245 generally applies to depreciable personal property used in a business. Farm examples often include tractors, combines, trucks, implements, and certain other equipment. Some other property can also fall under Section 1245, so don't classify an asset by its nickname alone.

When a Section 1245 asset is sold at a gain, the gain is generally ordinary income to the extent of depreciation previously allowed or allowable, subject to the statutory rules. In plain English: the tax law can “recapture” depreciation deductions as ordinary income. Any gain above the amount subject to recapture may receive different treatment, depending on the asset and circumstances.

A simple equipment example

Assume a combine had an original tax basis of \$300,000, accumulated depreciation of \$240,000, and an adjusted basis of \$60,000. If it sells for \$200,000, the gain is generally \$140,000. Up to the amount of prior depreciation that can be recaptured under Section 1245, that gain may be ordinary income. The exact calculation requires the depreciation history and sale details.



That’s why **IRC 1245 equipment recapture** can create a surprise tax bill even when the equipment is old, fully paid for, or sold as part of a larger farm transition. Ordinary income treatment can be less favorable than the long-term capital-gain rates people expect.

In many cases, a taxable sale of business property is reported on Form 4797, not simply as farm operating income on Schedule F. Schedule F reports farm profit or loss from operations; it is not a substitute for reviewing the asset-sale rules. Your preparer should determine how each transaction is reported.

IRC 1250 building depreciation: different rules, not no rules

IRC Section 1250 generally covers depreciable real property, such as buildings. A farm may have barns, shops, storage buildings, or other structures that need classification and tax-history review. Land itself is not depreciable, but a sale of land and buildings may need to be allocated among the assets.

The **IRC 1250 building depreciation** rules differ from Section 1245. For many individual taxpayers, the part of a gain attributable to depreciation on real property may be treated as “unrecaptured Section 1250 gain,” which can face a maximum federal rate of 25%. That is not the same as saying all building depreciation is ordinary income under the same recapture approach that commonly applies to equipment.

Section 1250 can produce ordinary-income recapture in certain situations, including where depreciation exceeds straight-line depreciation. The result depends on the property, when it was placed in service, the depreciation

method, ownership, and the taxpayer. State taxes and other rules can also affect the bill. Don't assume a building sale is tax-free just because its recapture treatment differs from a tractor's.

Farm asset sale tax rules: compare the assets one by one

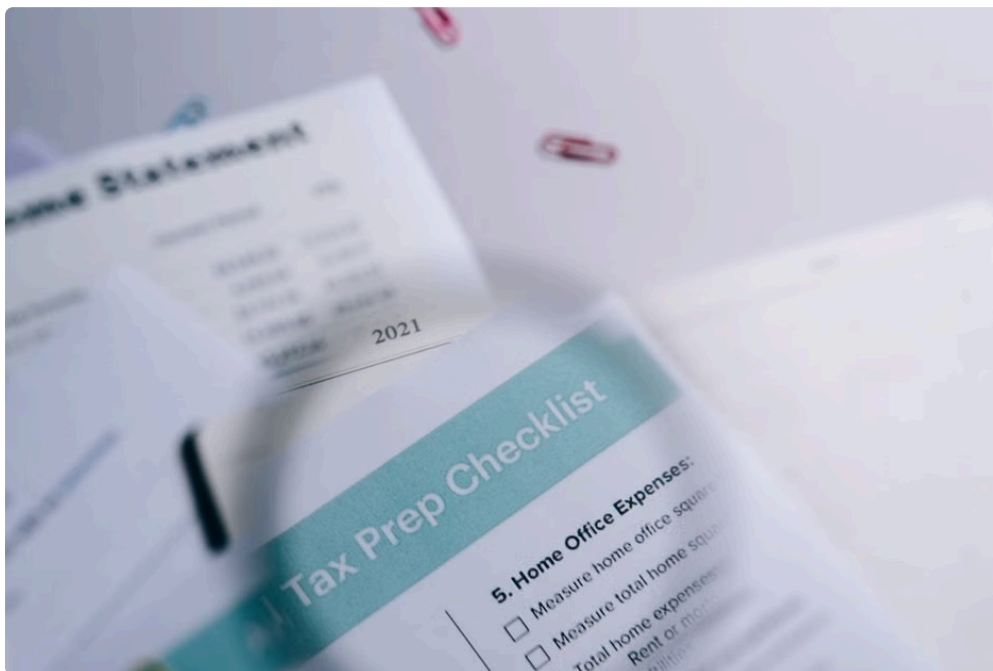
A farm sale often includes several kinds of property, each with its own tax treatment. Equipment, buildings, land, raised or purchased livestock, grain, and other assets may not all land in the same tax category. The purchase agreement's allocation can matter, and the allocation should reflect the transaction rather than serve as a last-minute tax guess.

Asset type Common tax question Why to review it Farm equipment Does Section 1245 recapture apply? Depreciation-related gain may be ordinary income Farm buildings Do Section 1250 rules or unrecaptured Section 1250 gain apply? Rate and character depend on depreciation and other facts Land What is the basis, and how is the gain characterized? Land is not depreciated, but its basis and holding period still matter Livestock, grain, and other operating assets How do the farm's accounting and tax rules apply? These items may be treated differently from depreciable property

These are general categories, not a substitute for an asset-by-asset review. A tax preparer should compare the depreciation schedule, purchase records, prior exchanges or transfers, and the proposed sale documents.

Inheritance can change basis—but don't treat it as a magic fix

Property received from a decedent may generally receive a basis adjustment under federal tax rules, often based on fair market value at death. That can reduce built-in gain for heirs who later sell, but the details depend on how the property is owned and transferred, applicable law, and the facts of the estate.



Gifting depreciated equipment during life generally does not automatically wipe out its built-in tax history. A lifetime gift can carry basis over to the recipient, while an inheritance may have different basis consequences. That difference can make "give it to the kids now" a costly shortcut if the child plans to sell soon.

Trusts can help with control, management, or succession goals, but a trust does not automatically erase depreciation recapture or fix basis. Before transferring property, confirm who will own it, who will use it, who may sell it, and how the transfer affects basis and tax reporting.

Plan around the likely sale, not just the family tree

1. **List the assets.** Include equipment, buildings, land, livestock, and other property that may transfer or sell.
2. **Gather basis and depreciation records.** Match the asset list to tax returns and depreciation schedules.
3. **Identify the likely seller and timing.** Ask who may sell, trade, or distribute each asset—and whether that is likely in one year or many years.
4. **Model the tax result.** Compare a sale, continued use, lifetime transfer, and inheritance where relevant.
5. **Coordinate the documents.** Review purchase agreements, entity records, estate documents, and tax reporting together.

For families who prefer to listen while driving or doing chores, Instaread's audio player can make written material easier to consume. Use it as a convenient way to hear general educational content—not as a replacement for reviewing [sell inherited farmland capital gains](#) your farm's actual depreciation schedule with a tax professional. AGDAILY also publishes agricultural coverage that can help families stay connected to broader farm-business discussions.

The bottom line

Section 1245 often matters most when a farm sells depreciated equipment: gain may be ordinary income because of depreciation recapture. Section 1250 applies to many depreciable buildings and has different rules, including possible unrecaptured Section 1250 gain. Neither label alone tells you the final tax bill.

For many farm families, the bigger succession threat is not federal estate tax. It is an unexpected income-tax bill when a successor sells an asset with low basis. The numbers that should scare you more than the jargon are accumulated depreciation, adjusted basis, likely sale price, and the year the sale will happen.

Start with the records, ask who is likely to sell each asset and when, and have your tax and succession advisers model the alternatives before the family signs a deal.